

97-84028-13

U.S. Congress. Senate.

Reviving the activities of
the War Finance Corp.

Washington

1920

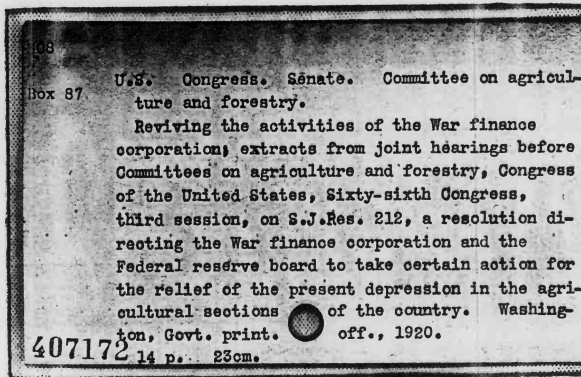
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REVIVING THE ACTIVITIES OF THE
WAR FINANCE CORPORATION

EXTRACTS FROM
JOINT HEARINGS 1921

BEFORE THE
COMMITTEES ON AGRICULTURE AND FORESTRY
CONGRESS OF THE UNITED STATES

SIXTY-SIXTH CONGRESS

THIRD SESSION

ON

S. J. RES. 212

A RESOLUTION DIRECTING THE WAR FINANCE CORPORATION
AND THE FEDERAL RESERVE BOARD TO TAKE CERTAIN
ACTION FOR THE RELIEF OF THE PRESENT DEPRES-
SION IN THE AGRICULTURAL SECTIONS
OF THE COUNTRY



WASHINGTON
GOVERNMENT PRINTING OFFICE
1920

COMMITTEE ON AGRICULTURE AND FORESTRY.

UNITED STATES SENATE.

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REVIVING THE ACTIVITIES OF THE WAR FINANCE CORPORATION.

WEDNESDAY, DECEMBER 8, 1920.

JOINT SESSION OF THE SENATE AND HOUSE COMMITTEES ON AGRICULTURE, Washington, D. C.

The Committee on Agriculture and Forestry of the United States Senate and the Committee on Agriculture of the House of Representatives reconvened, pursuant to adjournment, at 10.30 a. m., in the room of the Senate Committee on Agriculture and Forestry, Senator Ellison D. Smith, of South Carolina, presiding.

Present: Senators Gronna, France, McNary, Capper, Keyes, Smith of South Carolina (acting chairman), Smith of Georgia, and Kendrick; and Representative Tinscher.

Senator SMITH of South Carolina (acting chairman).

* * * * *
Senator SMITH of Georgia. We have just named agricultural products. I think, Mr. Chairman, we should strike out agricultural products and restore it generally: for copper, zinc, or any of our exports that need the backing of the War Finance Corporation to help those who are ready to extend credits abroad, would be affected by the restoration of the War Finance Corporation.

I think we shall find when we come to act upon this measure upon the floor of the Senate or upon the floor of the House, if we cease any kind of class discrimination and broadly ask that the War Finance Corporation resume operations, and give the backing of this great reservoir of \$1,000,000,000 to the various exporters and the various financial organizations of the country, they will feel that they have got something to fall back on for help if they need it.

Now, that is the great value of this War Finance Corporation; not simply the money that it immediately extends, but the courage and the assurance it gives to others. And I believe before we get through we will broaden it and simply provide that the War Finance Corporation resume operations.

Representative FLOOD. I think that agriculture has received the worst blow in the fall in prices, and deserves the first protection. I have no objection to this measure. I want to say, Mr. Chairman, that I am just as much interested in protecting the price of our corn and wheat as I am tobacco, not only because I am interested from the standpoint of the whole country, but because half of my district is in the valley of Virginia, and a very large quantity of corn and cattle is produced there.

Senator SWANSON. I wish to say also, with reference to these rice contracts, that individuals can not deal with these foreign Governments, the Austrian Government, the Japanese Government,

and the Belgian Government, and these Governments that have a monopoly of the tobacco business. Some relief ought to be given the producers as against these government monopolies. I would like to have the committee look at that phase of it in connection with this legislation. I want the committee to consider that the producers can not deal with individuals where they have these monopolies, but they must deal with governments, and they are absolutely at their mercy.

Senator SMITH of Georgia. Would not the details of any plan rest with the War Finance Corporation?

Senator SWANSON. I think so.

Senator SMITH of Georgia. And the existence of this governmental organization, prepared to give these credits, will meet the very difficulty that the Senator from Virginia mentioned.

Senator SMITH of South Carolina. Senator Capper has indicated that there are certain agricultural interests from the West that desired to be heard this morning.

Senator CAPPER. I would like to have you hear Mr. Thompson.

**STATEMENT OF MR. F. W. THOMPSON, VICE PRESIDENT
MERCHANTS LOAN & TRUST CO., CHICAGO, ILL.; ALSO
PRESIDENT FARM MORTGAGE BANKERS ASSOCIATION.**

MR. THOMPSON. I think my statement will be very short, gentlemen; it will be the statement of a remedy and nothing else. I shall not encroach upon your time.

I am vice president of the Merchants Loan & Trust Co., of Chicago, and vice president of the Farm Mortgage Bankers Association. I have been associated with farmers for the last 15 years.

I listened with a good deal of interest to what Senator Smith had to say with reference to the situation, and he practically took my speech out of my mouth. I have this to say, that the problem of the farmer is the problem of the banker, the country banker. I have been one. I have had 10 or 15 years' experience in the country banking business. I was a bank examiner in the State of Iowa for four years, and I know what I am talking about when I say that there is no common bond greater than the bond between the farmer and his rural banker, social or financial. So that if the farmer has a problem it immediately reflects itself in the country bank with which he does business.

I have seen all sides of country banking, and I am now engaged in the business of a large bank which in turn, does business with these smaller banks. You gentlemen may or may not know that it is the business of the bankers in reserve cities to attempt at least to regulate the loans that they make to country bankers upon their balances, somewhat after the fashion of the Federal reserve bank. In other words, if a man has \$15,000 credit with us, we think he is entitled to around four times that amount in case of stress; that is, a \$60,000 credit.

The Federal reserve bank establishes a basic line upon which they may make loans. They figure it out something like this: A member bank can ask for and is entitled to credit upon the amount of the reserve it has with the Federal reserve bank, less 35 per cent, which the law requires the Federal reserve bank must carry, plus his con-

tribution to the stock of the Federal reserve bank multiplied by two and one-half. In other words, a man having \$100,000 balance is entitled, if that average balance is maintained during the month, to a loan of around \$175,000.

Now, they get that, and they have been getting more than that; member banks have been getting more in this great western country of ours, and in fact in the southern country as well, from the Federal reserve banks; but it is a fact that they have recognized the stress that has been placed upon them and that they have extended their credits beyond what the law contemplates. I have figures to substantiate that statement.

Now, there are more State banks in this country than there are national banks, and so State banks come to us and they say, "We have to have credit." "All right; we will just base it upon your reserve that you carry with us, because that is the basis of our loaning power. How much do you want?" "Well, I have got to have so much money."

Well, now, we have loaned State banks—when I say "we" I mean the banks in such towns as Topeka, Atlanta, Memphis, St. Louis, Des Moines, Sioux City, Denver, any of these towns that are represented in the so-called reserve sections—we have loaned these men a vast sum of money; and gentlemen, the money that we loan to a State bank to-day is absolutely frozen. We can not get credit on it, because it is not rediscountable or eligible at a Federal reserve bank. But we have continued to do that up to a point where it is getting dangerous to the country bank. We have collateral, and 90 per cent of it—and I am just one of that type—90 per cent of it is collateralized by farmers' paper.

Senator GROXXA. I was going to ask you, Mr. Thompson, for the remedy.

MR. THOMPSON. I am just coming to that. This is an attempt to indicate why I think this remedy will work out.

I think that the War Finance Corporation, if it is permitted by law to rediscount paper, should have the power to rediscount this frozen paper that is not eligible for discount with the Federal reserve banks, thus releasing the pressure that has been put upon country banks all over the country, and to that extent I think that two hundred, three hundred, or possibly five hundred million of dollars will be required. That money would be rediscounted and indorsed by the best banks of the reserve cities of the United States to-day. You can absolutely assure the repayment of those rediscounts within one year, because we have the credits when they are moved, and they can surely retire all that it will be found necessary to rediscount with the War Finance Corporation.

Now, the War Finance Corporation as it is constituted to-day can not do a foreign business, as I understand it, without some amendment to the law.

Senator SMITH of Georgia. What do you mean by that?

MR. THOMPSON. I mean they have no right to make loans.

Senator SMITH of Georgia. They have the express authority under the amendment which we passed in March, 1919, to use a billion dollars to aid those engaged in the export business.

MR. THOMPSON. I am very glad to know that.

Senator SMITH of Georgia. We put in that amendment, the Finance Committee of the Senate reported that amendment in March, 1919,

and they are authorized to utilize their paper to raise a billion dollars, to be devoted exclusively to the export trade or to financing the credits that are essential for exports.

Mr. THOMPSON. That is fine. I say amen to that.

Senator SMITH of Georgia. Now, if they could move some of these farm products, if they could start the currents of trade by giving these credits, that would liquidate your paper?

Mr. THOMPSON. It would in time.

Senator SMITH of Georgia. It would help immensely.

Mr. THOMPSON. It would help immensely. I agree with you on that.

Representative FISCHER. Mr. Thompson, you remarked that a State bank's paper in your hands is classified as frozen paper. I suppose you are a member of the Federal reserve system?

Mr. THOMPSON. I am; yes.

Representative FISCHER. Do you mean that under the law it would require an amendment to our Federal reserve law to enable the Federal reserve bank to take that paper, you being a member, for security, that security being taken from a State bank that is not a member?

Mr. THOMPSON. That would help.

Representative FISCHER. Here is the point I am making. As I understand the Federal reserve law now, you can take the paper from a nonmember bank, and you, being a member bank, can use that paper?

Mr. THOMPSON. As I understand it, we can not.

Senator SMITH of Georgia. Being a member, you have the right to indorse it, just as you could indorse a merchant's paper.

Mr. THOMPSON. They won't do it.

Representative FISCHER. That is a matter of administration, and not a matter of law. The law permits them to do that.

Mr. THOMPSON. That is all right; I am not asking you to do that.

Senator SMITH of South Carolina. Do you think that is an arbitrary rule that has been adopted to force State banks into the system?

Mr. THOMPSON. I think it is.

Senator SMITH of South Carolina. That is what we want to get at.

Senator GRONNA. While you are on this question, I want to add this to what Senator Smith stated with reference to this billion dollars. On November 30, 1920, there was a balance due from the Treasurer of the United States of \$374,313,493.89, which of course could be used immediately, so that the Finance Corporation is not without funds.

Mr. THOMPSON. That is a good point, Senator.

Senator SMITH of Georgia. But I do not think a dollar of that would have to be used from the Treasury. I believe their paper can easily be handled, as it has been handled before, backed by this credit in the Treasury, making this paper that much better paper. And nobody questions the fact that the War Finance Corporation can handle—

Mr. THOMPSON. I do not think we have any differences about that. What I am principally interested in is what we can do now, not what will take place three or four or five months from now.

Senator SMITH of Georgia. In other words, if the War Finance Corporation, with its capital, would take this paper that is not rediscountable at the Federal reserve centers, you would liquefy the matter?

Mr. THOMPSON. At once, and that would help the country bank's situation tremendously.

Senator SMITH of Georgia. Why is it that you being a member bank, they decline to rediscount this paper from the country banks?

Mr. THOMPSON. I do not know, Senator.

Senator SMITH of Georgia. Don't you understand that the law authorizes it now? You are a member bank in the Federal reserve system, and have the right to rediscount your paper with them. Of course you are limited as to the length of time. Your farm-secured paper runs six months, and your ordinary paper not more than 90 days. Your paper must be of a character falling within the liquid provisions of the Federal reserve banking act.

Mr. THOMPSON. May I state, to the contrary of what seems to be the impression, that a farmer turns his capital in one year; that is a mistake. A farmer turns his capital about once in four years, and that six months' provision is a farce, so far as the average farmer is concerned.

Senator McNARY. Are you speaking of his liquid capital, or the capital that is invested?

Mr. THOMPSON. His invested capital.

Senator McNARY. That is a different proposition entirely.

Senator SMITH of Georgia. That provision was not intended to reach invested capital; that was put in to facilitate credits for the production of his crop, upon the theory that the crop took six months to raise.

Mr. THOMPSON. It really takes longer than that, Senator; they do well if they get through on a year. What I say is that a frozen credit means loans made to country banks and based upon farmers' paper that will extend beyond the six months' period.

Senator SMITH of Georgia. They can not materialize at all on their farmers' paper, and therefore they can not pay you?

Mr. THOMPSON. No.

Senator SMITH of Georgia. And therefore your paper taken from them is in no sense liquid, but frozen?

Mr. THOMPSON. It is frozen.

May I also say this? I see the Treasury Department has authorized a new issue of certificates bearing 5½ and 6 per cent, and they are asking the bankers to take this paper, to take these certificates liberally. Now, when you stop to think that a country banker is paying 4 per cent on his time certificates and he is asked to take this paper and put it out, he naturally takes that certificate and slips it in the place of a United States certificate. That is on top of the fact that he is unable to collect from his borrowers. I tell you the situation demands immediate relief.

Senator GRONNA. Is it not true that what we need more than anything else is an outlet for our products?

Mr. THOMPSON. Ultimately so, Senator.

Senator GRONNA. Not so much in asking someone to take this paper, or to give value received, or to get expenses, but to get money out in the country, something that can be used to pay debts with.

Mr. THOMPSON. I absolutely agree with you.

Senator GRONNA. Before you go any further, Mr. Thompson, I want to say you are mistaken about the provisions of the law and

the powers of the Finance Corporation. I ask to have printed section 21 (a), which reads as follows:

That the corporation shall be empowered and authorized, in order to promote commerce with foreign nations through the extension of credits, to make advances upon such terms, not inconsistent with the provisions of this section, as it may prescribe, for periods not exceeding five years from the respective dates of such advances.

This is a corporation with a capital stock of \$500,000,000, and it can go on and issue its bonds and certificates to an amount of six times its capital stock.

Mr. THOMPSON. I understand it; it can multiply that by six times.

Senator GRONNA. It specifically provides that they can do the very things that we under this resolution are hoping they may do; namely, to deal with foreign nations.

Senator SMITH of Georgia. But you are asking for still further relief?

Mr. THOMPSON. I am asking for immediate relief.

Senator SMITH of Georgia. You approve most cordially of the resumption of work by the War Finance Corporation?

Mr. THOMPSON. I most certainly do.

Senator SMITH of Georgia. But you also want it to have authority to aid in liquidating for you this frozen paper?

Mr. THOMPSON. Not for us, but for the country.

Senator SMITH of Georgia. I do not mean for you; I mean for your class.

Mr. THOMPSON. I understand; yes, sir.

Senator SMITH of Georgia. To aid in liquidating this frozen paper, that the country bank may be saved and that the farmer also may be saved?

Mr. THOMPSON. Surely. When the country banker is relieved, he says, "Why, Bill, I will carry you just as long as these fellows will carry me."

Senator SMITH of Georgia. And your suggestion is an additional remedy for the immediate emergency?

Mr. THOMPSON. Yes, sir. I want to say another thing. I would be in favor of limiting the rate of interest at which a piece of paper would be rediscountable at the War Finance Corporation, so that there would not be a dollar of profit to the man that discounted the paper. We want to relieve the situation in the country, and it needs it, gentlemen. I am not an alarmist or anything of the kind, but I do know some of the problems that are to-day affecting the banker in his demand upon the farmer that he pay and the demand upon the city banker that he deflate, and they are all up in the air.

Representative TINCHE. Mr. Thompson, there is a movement on foot by the Federal Reserve Board to deflate the currency. They do not need any amendment to the Federal reserve act to enable the Federal reserve bank to take nonmembers' paper from you, a member bank.

Mr. THOMPSON. I understand you on that.

Representative TINCHE. You are in favor of the Federal reserve banks resuming as well as the War Finance Corporation resuming, as I understand you?

Mr. THOMPSON. On eligible paper, yes.

Representative TINCHE. Suppose they are successful under this arbitrary rule of not permitting nonmember banks' paper to be discounted in the Federal reserve banks. That will force all of the State banks' reserves into the Federal reserve banks, will it not?

Mr. THOMPSON. Naturally.

Representative TINCHE. And that would enable them then to deflate the currency, as they term it, at their will and pleasure—if it is all in their banks?

Mr. THOMPSON. Yes.

Senator GRONNA. Let me say this. I dislike very much to be a witness before this committee, but let me tell you what happened in St. Paul the other day. Since you have brought this up, I think I might just as well tell the truth.

We had over a hundred head of large cattle which we shipped to St. Paul. We found the markets demoralized, and we wanted to ship them to Chicago, or to Illinois rather, and feed them. We could not get a loan of a dollar on those cattle.

Mr. THOMPSON. Whom did you go to, Senator?

Senator GRONNA. We went to the people right there in St. Paul and Minneapolis, and they said they were not advancing a dollar on cattle. The ninth Federal reserve district does not furnish any money to the producers of the country.

Mr. THOMPSON. I can not tell about that.

Senator GRONNA. I just want that to go in the record, that the country is not being supplied with money. The feeders and purchasers of cattle are not being furnished with money.

Representative TINCHE. I am told, Mr. Thompson, that the leading stock men of Kansas, men who have financial ability, can not borrow as much as \$10,000 for either of the purposes I have mentioned through the Federal reserve system.

Mr. THOMPSON. Does not this all come back to the point that these banks have all over-extended themselves on paper that is not liquid? They have so much of it on hand at the present time that they have ruined their chances to loan anything upon actual needs.

Senator GRONNA. Do not misunderstand me. So far as my little institution is concerned, we do not belong to the Federal reserve system. We are not complaining about that. We do not owe them a dollar, of course. But I am not speaking now of a single case; I am speaking of conditions as they exist in the western country, and especially in the ninth district, and the governor of that institution there has for more than a year made it his business to preach deflation and the withdrawing of loans. I know the object of that. I am ready to face him and discuss the question any time.

Mr. THOMPSON. As a general proposition, it is a poor time in hard times to call for deflation. The time to call for deflation is when things are good, to keep them from speculating.

Senator SMITH of South Carolina. Is it not your opinion that this universal cry of deflation brought on the hard times, largely?

Mr. THOMPSON. No; I do not think so. We have all contributed to the fact that prices have fallen. Prices were well beyond any rational idea of prices. Of course it was forced by this war; there is no question about that. The war brought on increased costs in everything, and consequently the prices of all articles had to rise. But since the war is over the purchasing power of the countries to

which we have sent our goods has decreased to such a tremendous extent that to-day France has to pay about \$5.25 for a dollar's worth of stuff here; Germany about \$16, Austria about \$66, England about \$1.40, Denmark \$2, Norway \$2, Sweden \$1.40, Holland \$1.33. I talked with a gentleman about that the other day, and he said, "Why, do you think we are going to do anything that is going to increase the cost of stuff that we have to buy? Why, no; we are going to reduce our purchases to the actual necessities."

Senator GRONNA. Everything you have said there is true, Mr. Thompson; but it is also true that we have been paying to foreign countries which have shipped in foreign products to us from 12 to 15 per cent premium. Take the cattle that are being shipped in here from the Dominion of Canada, and all the wheat and other cereals. We are paying the farmers of Canada a premium of not less than 15 per cent to-day.

Mr. THOMPSON. About 13 per cent to-day, Senator.

Senator GRONNA. Isn't that true?

Mr. THOMPSON. Yes, sir; that is true.

Representative FINGER. Mr. Thompson, Congress passed an amendment to the War Finance Corporation act in the spring, subsequent to the signing of the armistice, intended, as I understand it from the Senators, as a reconstruction measure. Now, last spring, I think in June, the Secretary of the Treasury suspended the operation of that corporation for the purpose of deflating the currency. Do you think that the currency is sufficiently deflated now, so that we should resume activities under the War Finance Corporation act, intended as a reconstruction measure?

Mr. THOMPSON. Well, I do not know. I can not give you an answer to that. It would be a ridiculous and suicidal policy, in my judgment, to give out any impression that the farmer or anybody connected with the farm should be obliged to make a complete liquidation. It would be suicidal. But I have this to say, that I think this committee ought to recommend that at least they start something. If they keep 80 per cent of their crop, well and good; but they must start something. They must send 10 per cent of their wheat, or 20 per cent of their grain or cotton, and that of itself will produce enough money so that it will liquidate probably five times the amount of goods sold. In other words, the process of debt paying would liquidate at least four times the amount of product you might sell.

Senator SMITH of South Carolina. They could not do that in the South right now, because, as the tobacco growers have complained, there is really no market. Any grade of cotton below middling is 5 or 6 cents a pound.

Mr. THOMPSON. I know, but they have ginned already nearly 8,000,000 bales of good cotton.

Senator SMITH of South Carolina. Oh, no; about 8,000,000 bales; but that includes all kinds.

Mr. THOMPSON. Of this year's crop?

Senator SMITH of South Carolina. Oh, yes; I am speaking of this year's crop.

Mr. THOMPSON. I would like, if possible, to have this paper incorporated in the record, Senator. It is so long I do not care to read it.

Senator SMITH of South Carolina. Without objection, we will just have this incorporated in the record.

(The document submitted by Mr. Thompson is here printed in full, as follows:)

STATEMENT OF THE FARM MORTGAGE BANKERS' ASSOCIATION OF AMERICA.

THE CRISIS IN AMERICAN AGRICULTURE—THE VITAL CONCERN OF ALL THE PEOPLE IN THE COUNTRY.

Farming is America's greatest industry, producing over \$20,000,000,000 of new wealth every year.

At least one-half of every dollar of income in this country comes from the farm, or, expressed in another way, agriculture produces at least half of the fund which supports the national population.

Forty-five per cent of the population is agricultural. In other words, nearly one-half the purchasing power of the country is dependent on agricultural prosperity.

These statements demonstrate that the very life of the Nation demands the maintenance of the agricultural population in a condition of relative prosperity. If the farmer is forced into what amounts to bankruptcy, he must curtail operations, and stop buying. In other words, the entire business of the country would fail if the farmer fails. He is the keystone of the arch. He supports the manufacturer, the merchant, and the laborer. The railways depend on him to keep them running. The Government itself could not function without his financial support. It must be obvious, therefore, that the welfare of the country as a whole is at stake unless immediate and adequate relief is forthcoming for the situation that now confronts the American farmer.

In the face of such a crisis, the members of the Farm Mortgage Bankers' Association of America feel that a very special obligation rests on them to emphasize the problem and to contribute to its solution the best wisdom that 50 years of financing the farmer can supply. This long and intimate knowledge of the farms' problems necessary to success in the gigantic task of financing the agricultural development of the United States is the basis for the following statement of the needs and of remedies proposed and which was prepared at a conference of the board of governors on November 22 last.

There can be no valid objection to the farmer bearing his just share of the burden of deflation which the entire world now confronts. The point at issue is that the farmer is obviously bearing an undue share of the burden at the present time, with results which threaten not only hardship to the farmer but virtual bankruptcy in many quarters, both to the farmer and his many creditors. Such a result would be a national disaster, threatening business chaos and the future food supply of this country and the world.

To illustrate the disproportionate degree of deflation to which the farmer is subjected it may be pointed out that when the farmer is asked to take 30 cents for his corn, little more than \$1 for his wheat, 11 cents for his cotton, less than \$10 for his hogs, and \$7 for his cattle, he should be able to buy other commodities, if deflated in like ratio, at prices far below present levels. For example, gasoline should not cost him over 12 cents, coal \$5, a \$10 hat \$4, a \$10 pair of shoes \$1. Furthermore, labor now asking 10 cents a bushel for husking corn should not get over 4 cents. It must also be recalled that when the farmer ships his product he must pay transportation costs ranging from 33 per cent to 100 per cent more than before the war period.

The cumulative effect of this fall in prices, unprecedented in the history of the country, makes the situation all the more serious, for it affects not only the 1920 crop but an unusually large carry-over from the 1919 crop. To further aggravate the situation, the large acreage of wheat planted in the fall of 1920 is within seven months of harvest.

It seems to be generally admitted that the great difficulty is want of confidence in the stability of prices, even at present low levels in the face of present strained credit conditions. In other words, there is no buying in the market because the prospective purchaser at home and abroad is afraid of prices being forced still lower, even though it is obvious that lower prices can only be brought about by what amounts to the bankruptcy of the producer. Absence of credit facilities contributes to this hesitation by cutting off the purchasing power of both foreign and domestic buyers and destroying the power of farmers and breeders themselves to market their products in orderly fashion. We, therefore, have the anomalous situation of demoralized markets in the spite of the fact that there is admittedly no oversupply of farm products in the face of world needs, and that prices at all fairly reflecting a supply and demand basis would be much higher than present levels.

Inasmuch as the present situation has been largely brought about by necessary Government interference with what would otherwise be the restraining effect of the

law of supply and demand, it is quite reasonable to appeal to the Government—which was compelled to create this situation—to relieve it so far as it may do so without violation of economic principles. Precedent for such action in behalf of the agricultural interests may be found in the action of the Government in relieving the railroads of too sudden a readjustment on their return to private ownership; it can not be denied that the farming industry is just as important to the foundations of national prosperity as the transportation industry.

THE NEEDS AND PROPOSED REMEDIES IN DETAIL.

(1) *Need.*—Some plan to relieve the banks in the reserve centers of their present load of paper ineligible for discount with the Federal reserve banks.

Remedy.—If the banks in the reserve centers could transfer this burden to some other agency for a year's time, there would be released an entirely adequate amount of credit for present needs of both agriculture and general business and for the relief of country banks which are now compelled to exercise undue pressure on their customers, and, worse still, to refuse to furnish their farmer customers essential credit for carrying on their operations. This relief is fundamental to the relief of the other needs enumerated below, and mature consideration suggests a revival of the War Finance Corporation as the best immediately available agency for taking over this burden. We, therefore, urge the immediate revival of the War Finance Corporation with specific powers and instructions to accomplish this end, with the stipulation that the corporation should assume no paper carrying a higher rate than 7 per cent. This measure is intended for relief, not as a means of profit.

(2) *Need.*—Plans for financing foreign purchases of United States farm products.

Remedy.—See discussion under each product.

(3) *Need.*—Means of financing the marketing of accumulated stocks in the hands of the farmer, so as to distribute the pressure on the market over the entire marketing year, month by month.

Remedy.—See discussion under each product.

(4) *Need.*—Measures to relieve the breeders of the necessity of liquidating breeding herds and animals not yet ready for market.

Remedy.—See discussion under each product.

The last three mentioned needs are considered below in relation to the major farm products, so that specific remedies for the needs presented in connection with these products may be mentioned in direct relation to them.

Wheat.—At the outset, it must be recalled that the situation in this grain is by no means the result of normal conditions. It is the result of the pressure brought to bear on the farmer during the war to produce wheat "to win the war," no matter what the cost. In responding to this appeal the farmer and his family worked early and late; he paid war prices for his supplies; competed with the wages of munition factories in hiring his labor, and put into cultivation land which ordinarily would not be regarded as profitable for this use. As a result, the crops now ready for sale were produced at costs entirely beyond ordinary standards, and founded rather on the needs of war than the dictates of business prudence. To stimulate production on this basis, prices were fixed as an assurance against loss to the producer, who had thrown caution to the winds in responding to the appeal of the Government.

When the 1919 crop was ready to market, however, the producer, in very many cases, could not sell at these fixed prices because the railways could not furnish cars. When cars were at last available, which was not until the 1920 crop came on, the prices had fallen so far as to be below the cost of production.

If this break in prices had stopped at a level representing fairly the relation of supply to demand, probably no remedy would be required, and the farmer would have to take his inevitable loss. The best authorities, however, are quoted to the effect that there is no more wheat in this country than is now needed for our own consumption, and one of the largest grain firms openly prophesies that wheat will bring a much higher price by June.

Is it surprising that the farmer, therefore, confronting a price of little over a dollar on the farm in the chief producing sections, is convinced that present prices are only temporary and is endeavoring to hold for better prices?

Much has been said of so-called farmers' "strikes," but there is no evidence of any such unpatriotic attitude on the part of any considerable element among the farmers,

and the more conservative element, as represented, for example, by the American Farm Bureau Federation, has taken pains to repudiate the idea. There is, however, too much justification in the present situation for the propaganda of the radical element, and much uneconomic and unsocial legislation can only be avoided by the prompt adoption of constructive measures. The disastrous results of populism are sufficient warning on this score.

A careful study of the facts indicates that the present lack of buying power in the market is not due, as we have pointed out, to over supply, but to lack of financial ability on the part of buyers and a lack of confidence that prices have yet reached bottom. Were prices once to show a steady upward trend, it can not be doubted that they would rapidly approximate fair levels. To restore confidence that grain will not be unduly forced on the market by the bankruptcy of producer and creditor we need just the relief that it would seem can best be provided by reviving the War Finance Corporation and giving it the power before indicated. We believe that this measure would by its psychological effect accomplish the desired end of reestablishing confidence with a minimum financial burden on the corporation and we would make the distinct reservation that the life of the corporation should be restricted to the period of the emergency.

As a permanent measure of relief in financing foreign exports we endorse the formation of corporations under the Edge bill, one of which we understand is this month in process of formation.

Corn.—The bountiful corn crop of this year has depreciated in price far below the cost of production, not so much on account of over-production as because of the fact that the normal consumption of corn for cattle feeding is seriously diminished on account of the demoralized cattle market and the inability of cattlemen to finance themselves in buying cattle to feed and in many cases even to hold the cattle they now own to maturity. It is difficult for farmers to borrow new money to buy either feed or cattle. For that reason we can not, as in normal years, by feeding cattle, make corn selling at 30 to 40 cents worth \$1 by feeding it to cattle. In other words, if the cattle industry were functioning as usual it would largely absorb what appears to be an overproduction and would cause the price of corn to harmonize with at least the cost of production or its worth as feed, which would be largely in excess of the cost of production.

Cattle, hogs, and sheep.—From all over the country comes the story of the great loss now being sustained by every one engaged in the live-stock industry. The story is the same everywhere—of inability to finance new purchases and in many cases to carry to maturity and satisfactory marketing conditions the present herds, or even, to retain the breeding herds. Unless the industry can be saved for the future, what will be the price of meats in the years to come? To-day no industry in the country so important to all, is suffering such a heavy loss.

Certain banks of reserve cities have already provided a special fund of upward of \$25,000,000 as a partial measure of relief for this serious situation, but here again it is obvious that to prevent a serious crisis, both to the corn farmer and the live-stock farmer, who are so closely related, there must be the relief, which, as before stated, can only be afforded by an agency operating as we have suggested the War Finance Corporation should operate. In this connection, special relief by the use of the funds of the War Finance Corporation, we believe, can best be administered by the banks of the country, especially members of the Federal reserve system, who already have all the facilities and can do the work without expense, loss, or, what is most important, delay.

It must here be pointed out that credits in the live-stock industry must be for periods of more than 6 months—must be for a year, 18 months—even two years. As a permanent agency for furnishing such credits measures like that of Congressman McFadden should be carefully considered.

Cotton.—There is no market for millions of bales of low-grade cotton. It is reported that Germany is the only country in the world with facilities for using this cotton. It is said that Germany wants it, but in order to buy it, must have credit, for which it is said to be in position to offer security. Certain banking interests in the South have already made a beginning in financing the export of this cotton to Germany, but present banking resources are already overstrained, not only by domestic demands, but by the burden of over two and a half billions of credits to American exporters already outstanding. Here again as a permanent means of relief the operation of corporations under the Edge bill offer a hopeful solution, but in the interim the facilities of the War Finance Corporation asked for above seem necessary to prevent serious distress in the cotton States.

CONCLUSION.

In pressing for the relief in the measures above proposed, and notably through the revival of the War Finance Corporation, we reiterate our conviction that measures of Government relief are forced by the complete degree of Government control during the war and are warranted by the necessities of a transition period.

Paternalistic measures should, however, be regarded purely as emergency measures and acts providing for them should curtail their life and should encourage the substitution for them of proper private agencies as rapidly as possible.

We would also again emphasize the feeling that the present situation is chiefly due to lack of confidence and the present strain on our credit facilities. We believe that the initiation of these proposed relief measures will restore confidence and bring relief through the ordinary channels of trade to such an extent that the actual use of the measures proposed will be comparatively limited.

Senator SMITH of South Carolina. Now, Mr. Thompson has indicated the remedy that he desires to enact. I understand that there are certain representatives of the wool interests that desire to be heard this morning. Senator Capper, you had some gentleman that you wanted to present?

Senator CAPPER. Mr. Thompson was speaking for them.

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